Senator Kent Conrad (D-ND) - Senate Floor Statement on Economic Stimulus - 10/31/01

Mr. CONRAD. I rise today to talk about the economic stimulus package that is being discussed and debated in both Houses of Congress.

When it became apparent that our economy was weakening, those of us who have special responsibilities for the budget--the leaders of the House Budget Committee and the Senate Budget Committee--got together and agreed on a bipartisan, bicameral basis on certain principles for an economic stimulus package. These were the chairman and ranking member of the House Budget Committee and the chairman and ranking member of the Senate Budget Committee.

After several weeks of work, we were able to agree on a bipartisan basis on a set of principles to apply to the stimulus package. We agreed on an overall principle that an economic stimulus package should be based on the recognition that long-term fiscal discipline is essential to sustained economic growth. We agreed that measures to stimulate the economy should be limited in time so that as the economy recovers, the budget regains a surplus at least equal to the surplus in Social Security. And that any short-term economic stimulus should not result in higher long-term interest rates.

We went on to agree to the objectives, the timing, the rapid impact, the sunset, the targets, and the size of any economic stimulus package. Again, this was on a bipartisan basis and involved the leaders of both the Senate Budget Committee and the House Budget Committee.

On objectives, we agreed that an economic stimulus package should restore consumer and business confidence, increase employment and investment, and help those most vulnerable in an economic downturn. On timing, we agreed that Congress should assemble an economic stimulus package with dispatch, aiming for passage within 3 to 4 weeks of our report which was done on October 4.

On rapid impact, we agreed that a substantial portion of the fiscal impact should be felt within 6 months.

On sunset, we agreed that all economic stimulus proposals should sunset within 1 year to the extent practicable.

On targets, we agreed that an economic stimulus package should be broad based, rather than industry specific, and that policies should achieve the greatest possible stimulus per dollar spent be, and should be, directed to individuals who are most likely to spend the additional after-tax income and businesses most likely to increase spending and employment.

On size, we agreed that the economic stimulus package should be equal to roughly 1 percent of gross domestic product, which would be $100 billion, but take into account what we had already done at that point, which was some $40 billion. That would mean a floor of at least $60 billion of economic stimulus.

And on offsets, we agreed to uphold the policy of repaying the greatest amount of national debt feasible between 2002 and 2011; that outyear offsets should make up over time for the cost of any near-term economic stimulus.

With those principles in mind, we can now apply them to the various proposals that are out there. Senator Baucus, the chairman of the Finance Committee, has released a proposal, and we find in looking at the elements of Senator Baucus' proposal--we matched them with the principles that were agreed to on a bipartisan basis--that his package passes on each and every principle that had been agreed to.

On the question of temporary, on a bipartisan basis we agreed that proposals should sunset within 1 year. Senator Baucus' package provides for that.

On rapid impact, we said a substantial portion should be out within 6 months. Senator Baucus' proposal has all of his impact in the first year.

On size, we said approximately $60 billion. Senator BAUCUS' proposal has $70 billion in this fiscal year but actually costs less than that over the 10 years because some of the things that provide lift now actually will generate revenue later on.

On targeting, we said the stimulus dollars should go to those most likely to spend them. Senator Baucus' proposal includes $14 billion of rebates to those who were not included in the first package of rebates and $33 billion in worker relief targeted to low- and middle-income Americans who are the most likely to spend the money.

On the question of not hurting our long-term fiscal condition, Senator Baucus' proposal has virtually no effect on the surplus after this fiscal year.

His proposal clearly passes each of the tests.

If we apply those same principles to the House package, we get quite a different result. In fact, we find that they fail each of the tests. Not just one of them, not two of them; the House proposal fails each and every test that was agreed to on a bipartisan basis by those of us most responsible for the budget.

With respect to temporary, the House bill has 71 percent of its tax cuts as permanent. There is no temporary package. It is largely a permanent package. So that fails the first test of being temporary.

Second, on the question of rapid impact, we said a substantial majority of the fiscal impact should be felt within 6 months. But in the House package, nearly 40 percent of the 10-year cost is after this year. That is not a stimulus package. A stimulus is designed to give lift to the economy now, not 2003, not 2004, and yet 40 percent of the cost of the House package is after the year 2002. That clearly fails the principle of rapid impact.

On size, we said $60 billion as a starting point, as a floor. The House package is $162 billion over 10 years. That is far in excess of what the President called for. He said $60 billion to $75 billion. This has a cost of $162 billion.

On the question of targeting, the House package has 35 percent of the tax cuts going to the wealthiest 1 percent. We on a bipartisan basis agreed to the principle that stimulus ought to go to those most likely to spend the money. That is what will lift the economy. That is what will provide stimulus. But the House package disproportionately goes to the wealthiest 1 percent. Those are the very people most likely to save the money, not to spend it.

However meritorious savings may be--and goodness knows I am an advocate for savings--that does not stimulate the economy. The thing that stimulates the economy, according to every economist who came and testified before the Budget Committee, is if people and companies spend the money that they get, and spend it now--not 2 years from now, not 3 years from now, but now. Now is when the economy is weak. Now is when we need stimulus.

This morning's economic report on the last quarter of economic growth shows we are in negative territory. It makes the point as clearly as it can be made that we need economic stimulus now--not 2 years from now, not 3 years from now but now.

Madam President, while the House package has 35 percent of the benefits going to the wealthiest 1 percent, the bottom 60 percent of the income category get only 19 percent of the benefits. Yet those are the people who are the most likely to spend the money and give lift to the economy. So the House package violates that principle.

Finally, on the question of a package not worsening our long-term fiscal condition, the House package has a cost of $171 billion when you include the interest costs beyond the year 2002. In other words, every dollar of that part of their stimulus package would be coming out of the Social Security trust fund surplus.

In essence, they are taking payroll tax dollars from people in this country and giving the money in an income tax cut that goes disproportionately to the wealthiest 1 percent. That stands stimulus on its head. That is taking money from the people who are most likely to spend it and giving it to people who are most likely to save it.

That is not what stimulus is all about. That cannot be the result. I just want to make clear to my colleagues, as chairman of the Budget Committee, I will not accept this kind of result. I will use every device available to me to stop any package similar to what the House passed.

Given the ability of a Senator to stop a package, I can assure my colleagues, this is not going to happen because I am not going to let it happen, and there will be plenty of others who will join me. We are not going to let it happen because it should not happen. This is not a stimulus package; it is a political package.

The Secretary of the Treasury said it very well when asked about the House package. He called it show business. This is no time for show business; this is time for real business. This is time for the business of America. This is the time to have a stimulus package that really does the job and does not abandon fiscal discipline for the long term by putting upward pressure on interest rates that would undo all the good we are trying to accomplish by a package of fiscal stimulus.

When we go to the question of the plan that was released yesterday by Senator Grassley, the ranking member of the Senate Finance Committee, and apparently now adopted by the Senate Republican caucus, we have looked at each of the measures, each of the principles that had earlier been agreed to on a bipartisan basis, and we have graded the Grassley package. Here is what we found.

On the question of temporary--the principle was the stimulus should sunset within 1 year--what we find is that 82 percent of the Grassley package is not temporary; 82 percent is permanent tax cuts. That absolutely fails the test of temporary.

Why do we have that test? We have that test because every economist who has come to us has said: Look, you have to marry fiscal stimulus with long-term fiscal discipline; otherwise, you will put upward pressure on interest rates, and, guess what. You will undo all of the potential good of a fiscal stimulus package. You will put fiscal policy at war with monetary policy, and while you are giving lift to the economy with fiscal stimulus, you will be suppressing the economy by increasing interest rates.

This principle is there for a reason, and the reason is, as Secretary Rubin, who is the former Secretary of the Treasury who did such a brilliant job in the Clinton administration, made clear to us, you have to be careful while you are providing fiscal stimulus to couple it with long-term fiscal discipline.

We all understand, because of the tax cuts that were provided earlier, because of the attacks on our country, because of the need to rebuild, because of the continuing economic weakness, this country is headed into deficits in the fiscal year we have just ended.

We are not talking just about trust fund deficits; we are talking about deficits that mean we are going to be using every penny of the Medicare trust fund surplus this year to pay for other items.

We are going to be using every penny of the Social Security trust fund surplus this year to pay for other items, and we are going to be spending beyond that. We are not only taking all of the trust fund surpluses, but we are taking billions of dollars beyond that.

That may be acceptable at a time of war, at a time of economic slowdown, but we cannot permit that to continue. We cannot allow a circumstance to develop in which we are raiding and looting every trust fund in sight, even when the economy is forecasted to be in recovery. That will devastate this country's position when the baby-boomers start to retire in 10 years.

Please, I say to my colleagues, let us not get stampeded to do things that make our long-term fiscal condition far worse. That would be a disaster for this country.

On the question of rapid impact, looking at the Grassley package, again we had the principle of the money should go out, the vast majority of it in 6 months. Why? Because in looking at past results, what we have found is every time there was an attempt to use fiscal policy to stimulate the economy, we have been too late--not just some of the time, every time. Every time there has been an economic slowdown and we tried to use fiscal policy to give stimulus, each and every time we have been too late So this time we are saying if we are going to stimulate the economy, get the money out in time to make a difference. That is why we have this principle. Yet if one looks at the Grassley plan, nearly half of it, 48 percent of the 10-year cost, occurs after the first year. That is not a stimulus package. That is a tax cut package--I will grant that--but it is not a stimulus package.

It is going to be too late. It is going to be like all the other times when we tried to use fiscal stimulus, and every time it has been too late. Let us not make that same mistake again. On a bipartisan basis we said: Let us not do that again. If we are going to have stimulus, let us get it out there to be effective.

The Grassley plan does not do it. Half of it comes after the year 2002.

On the size, we said $60 billion. The cost of the Grassley plan is $175 billion over 10 years. That does not count the interest cost.

On targeting, we said stimulus dollars should go to those most likely to spend them. Well, the Grassley package flunks that big time. Forty-four percent of the value of the tax cuts in the Grassley plan goes to the wealthiest 1 percent. Eighteen percent goes to the bottom 60 percent. Talk about taking a principle and standing it on its head. That is what the Grassley proposal does. It does not funnel the money to those who receive the lowest income, who are the ones most likely to spend it. It gives the disproportionate share to the wealthiest 1 percent who are the ones most likely to save it, not spend it.

Again, however meritorious saving is--and I believe in it and applaud those who save--every economist has said to us you have to put this money in the hands of companies and people who will spend it and spend it now; not 2 years from now, not 3 years from now but now. The Grassley plan absolutely flunks that test.

Finally, the package should not worsen our long-term fiscal condition. The Grassley plan costs over $200 billion, counting the interest. It costs over $200 billion after fiscal year 2002.

That is digging the hole deeper. That is taking every penny of it from the Social Security trust fund surpluses.

When one thinks about it, here is what he is doing: He is taking money from payroll taxes--and over 70 percent of the people in this country pay more in payroll taxes than they do in income taxes--he is taking payroll tax money and using it to fund an income-tax cut that disproportionately goes to the wealthiest 1 percent. Think about that. He is taking money, over $200 billion, after this economic slowdown is over--according to the administration's projections, he is taking $200 billion of people's payroll tax money and going over and giving half of it to the wealthiest 1 percent in an income-tax cut when every economist has told us we ought to give the money in tax cuts to the lower income people who are most likely to spend it.

Instead, what he is doing is taking it from the low-income people, the 60 or 70 percent of the people who pay more in payroll taxes than they pay in income taxes, and giving it to the wealthiest 1 percent, who are the ones most likely to save it and not spend it. That is not a stimulus package. That is a tax cut package for the most privileged and the wealthiest among us. It is certainly not a stimulus package. It flunks every test, every principle that we agreed to on a bipartisan basis.

I hope our colleagues are thinking very carefully about this matter of a stimulus package. It is needed. It is needed soon. We have an economy that is in decline. We were in trouble before September 11. That circumstance has gotten seriously worse after the events of September 11, after the sneak attack on this country. We have an obligation to develop a stimulus package that is really stimulus, not a political plan, not a partisan plan but a plan that is going to help lift this economy. To do that it is critically important that while we are giving a short-term lift, a lift that will take effect in a way that is timely, that we also couple that with long-term fiscal discipline so we do not push up interest rates, so we do not undo all of the good we are attempting with a stimulus package.

I feel very strongly about this issue because I have seen in the 15 years I have been in the Senate the difference between healthy fiscal policy and fiscal policy that is built on debt and deficits and decline. The last thing we should do in this country is put our Nation back on the course of massive fiscal deficits, draining every trust fund in sight in order to cover other costs. That is especially important in the decade before the baby-boomers retire.

I am going to be ferocious on the question of not digging the fiscal hole deeper beyond the time of economic weakness. That would be a profound and tragic mistake to this country.

The distinguished occupant of the chair is the Senator from New York. New York has been devastated by the attacks on September 11. I think all of us are proud of the reaction of the people of New York. They have stood tall. They have responded with courage, and they deserve our help. Every time in our Nation's history when one of our States has been hit by natural disaster or some tragedy, all of the other States have rushed to help.

I remember when my own State was devastated in the 1990s by floods, the worst floods in 500 years. Colleagues from all across this country reacted in a generous way to help the people of my State who were so badly hurt. I remember when California was devastated by fires and earthquakes how all of us rallied around to help the State of California because it was the right thing to do and because we also recognized we are the United States of America and we are united at a time of difficulty for many of our people.

The people of New York have suffered not a natural disaster; it is a man-made disaster, a disaster made by fanatics who took innocent lives by the thousands and devastated tens of millions of dollars worth of property and put New York's economy on a course that is going down. It is our obligation to help. We will help. We will fashion a stimulus package that will help all of our country recover.